



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 4/4/2005

GAIN Report Number: TU5012

Turkey

Sugar

Annual

2005

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Report Highlights:

Turkey's sugar beet production is expected to be slightly higher in MY 2006. The starch-based sweetener production quota should remain unchanged from previous years. Sugar production will also increase slightly. The 2005 tariff on sugar is 108 percent of the CIF value on sugar imports from the EU countries and 135 percent from all other countries. At the end of 2004, the Turkish Council of Ministers disbanded the Sugar Board, which was responsible for establishing production quotas for sugar and starch-based sweeteners. A new Sugar Law is currently being considered.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Ankara [TU1]
[TU]

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Executive Summary

Turkey's MY 2006 (September 05 – August 06) sugar beet production is expected to reach 14.5 MMT on 320,000 hectares. Sugar beet area has declined over the past several years as farmers move to plant more profitable crops like corn. We expect 2,175,000 MT (raw value) of sugar is to be produced in MY 2006. The Turkish Sugar Corporation (TSC) farmers are expected to produce 9.5 MMT of sugar beets (on 210,000 hectares land) and 1.3 MMT (raw value) of sugar. TSC is a parastatal organization. Farmers, who contract with private refineries, including those belong to the Central Union of Sugar Beet Producers (PANKOBIRLIK), are expected to produce about 5 MMT of sugar beets (on 110,000 hectares land) and 700,000 MT of sugar (raw value) in MY 2006.

Turkey maintains production quotas for both sugar and sweeteners. The total production quota for MY 2006 is 2,342,000 MT (refined value), which unchanged from previous years. The quotas are maintained to discourage over supply of sugar. There is also a production quota of 234,100 MT for starch-based sweeteners, again unchanged over the last three years. However, the Council of Ministers, during the previous 3 marketing years, raised the starch-based sweetener (SBS) quota by 50 percent to 351,150 MT. No announcement has been made concerning SBS for MY 2006.

This is only the second time that a procurement price for sugar was announced prior to planting. The price in MY 2006 is YTL 0.098909 (or TL 98,909) per kilogram (for 16 percent polar sugar content) unchanged from last year. This base price, however, could be increased or lowered depending on the beet sugar content. (Currently USD 1.00 is around YTL 1.37 or TL 1,370,000).

The government has been attempting to privatize many government-owned industries including sugar refineries. However, the privatization of the sugar sector has been very slow. In 2005, only the Kutahya refinery was privatized while the Adapazari refinery, which has not been operating since the major earthquake in 1999, was turned over to the Privatization Administration.

TSC is expected to have larger carryover stocks this year, which could result in a lower production quota in MY 2007. Because TSC refineries are parastatals, they cannot operate at a loss and, as a result unlike PANKOBIRLIK's refineries, they cannot reduce their selling prices and/or offer deferred payments. This results in a reduction in sales for TSC and forces TSC to increase stocks. The increase in stocks will reduce the production quota for TSC in MY 2007.

The tariff on sugar imports in 2005 remains unchanged from the previous year. There is a 108 percent duty on the CIF value of sugar imports from the EU countries and 135 percent from all other origins. Only those exporters use sugar in their products, such as, candy, biscuits, waffles, etc., can import sugar without paying any duty. The import duties on products containing sugar are high.

The 2001 Sugar Law established several entities to oversee the sugar sector. One entity, the Sugar Board, was responsible for establishing production quotas for sugar and sweeteners based on the supply and demand for sugar and sweeteners. A second, the Sugar Authority, was responsible for carrying out the directives of the Board. However, the Council of Ministers issued a decree on December 31, 2004, declaring the Sugar Authority was no necessary. This has created uncertainties in the industry.

Production

The sugar beet production in Turkey in MY 2006 (September 2005 – August 2006) is expected to reach 14.5 MMT on about 320,000 hectares land. Sugar beet area has declined over the past several years as a result of reduced production quotas and farmers opt for more profitable crops like corn. This year, the Turkish Sugar Corporation (TSC) farmers are expected to produce 9.5 MMT of sugar beets on 210,000 hectares. Farmers producing under contracts for private factories, including Central Union of Sugar Beet Producers Cooperatives (PANKOBIRLIK) factories, are expected to produce 5 MMT of sugar beets on 110,000 hectares.

Turkey maintains production quotas for both sugar and sweeteners. The total production quota for MY 2006 is 2,342,000 MT (refined value), which unchanged from previous years. Total sugar production is expected to be 2,175,000 MT (raw value). Of this total, TSC factories are expected to produce 1,425,000 MT (raw value) and the private factories, including PANKOBIRLIK factories, are projected to produce 750,000 MT (raw value). In addition to beet-sugar production, the quota includes starch-based sweeteners (SBS), which is 234,100 MT. However, in the previous two years, the Council of Ministers, at the request of the starch industry raised the SBS quota by 50 percent to 351,150 TM. The Council of Ministers has not yet announced an increase in the SBS quota for MY 2006.

The MY 2006 sugar beet procurement price, which is the price at which sugar can be sold in Turkey, is TL 98,909 per kilogram (for 16 percent polar sugar content). This price is unchanged from MY 2005. This price could increase or decrease depending on the sugar content of the beet harvest. MY 2006 marks the second time a sugar beet procurement price was announced before planting by a committee with representatives from the Turkish government, TSC and PANKOBIRLIK. This, despite the fact that according to the 2001 Sugar Law, the government is not supposed to be involved in this action.

Annual Turkish honey production is approximately 70,000 MT.

Beet yields in MY 2005 were about 42 MT per hectare for TSC compared to about 43 MT per hectare on a normal year. On the other hand, in MY 2005, the average sugar content was 14.48 percent for TSC and 14.80 percent for PANKOBIRLIK, both of which are higher than the previous year's levels (14.12 percent for TSC and 14.21 for PANKOBIRLIK in MY 2005).

Sugar beets are produced throughout Turkey and are grown under contract with refineries. As part of these contracts, refineries require specific crop cultivation techniques for the region. Beets generally are grown in three or four-year rotations with cereals, pulses, fodder crops and sunflower. Planting begins as early as February and continues through May with harvest from late July through November. Approximately 380,000 farms grow sugar beets in Turkey. The sugar factories guarantee purchases of beets produced under contract. Planting started at the normal time this year since the climate was mild during the winter months.

Farmers contracting with the TSC are obliged to use TSC-supplied seeds. Although they are free to purchase fertilizer from anywhere they wish, they generally prefer to use TSC fertilizers because payment is deducted from the balance a farmer receives after the harvest. Final payments may not be received until March in the following year or even later. The final payment represents a significant portion of his total return.

TSC and PANKOBIRLIK also provide harvesting equipment or harvest services, as needed. Farmers are responsible for other inputs including land, labor, irrigation, and transportation of the beets from farm to factory or other central collection points.

Consumption

The total number of sugar refineries in Turkey is 32. All are functioning except one in Adapazari, which is not functioning since the major earthquake in 1999. Twenty-five are fully owned by TSC and four by PANKOBIRLIK. The Privatization Administration privatized the TSC share's in the Kutahya refinery last year. TSC shares in the Adapazari refinery were also transferred last year to the Privatization Administration, but they have not yet been privatized. PANKOBIRLIK also has small shares in these two refineries.

Several new refineries have been completed or are under construction. The Cumra refinery was completed in 2004. It will begin production at full capacity in MY 2006 (September 2005). A private company recently constructed a refinery in Aksaray, and will begin sugar production in MY 2006. PANKOBIRLIK is also constructing a new sugar facility in Bogazliyan, which is expected to run on a trial basis in MY 2006. PANKOBIRLIK's refineries function independently and are supervised by individual executive boards.

TSC bought 9,528,000 MT of sugar beets for about YTL 1,022 million (or about USD 730 million) in MY 2005, compared to 9,131,000 MT of sugar beets and TL 830 trillion (or about USD 535 million) the year before. Since only part of the MY 2005 payments were made in advance, TSC still owes nearly half of this amount (YTL 470 million) to farmers. All debts must be paid by the end of April in order to avoid interest payments. Similarly, PANKOBIRLIK refineries procured about 4.3 MMT MT of sugar beets worth about YTL 464 million (or about USD 250 million) and have paid one half of this total (YTL 241 million) so far. PANKOBIRLIK refineries procured 3,444,000 MT of beets and paid about TL 325 trillion (or about USD 250 million) in MY 2004.

Annual per capita sugar and sweetener consumption is estimated to be around 30 kilograms (refined basis).

Beginning in MY 2003, TSC and PANKOBIRLIK are setting ex-factory prices independently. PANKOBIRLIK may offer reduced prices and/or deferred payments to their customers. The following table provides the ex-factory prices of TSC (8 percent value-added tax [VAT] included) dated June 18, 2004, which have not changed since the last Semi Annual Report (TU4034).

Type of Sugar	June 18, 2004	June 18, 2004
Crystal Sugar:	TL/Kg	YTL/Kg
- In 50 kilogram bags	1,695,600	1.6956
Cube Sugar:		
- In 50 kilogram bags	1,841,400	1.8414
- In 1 kilogram box (25 boxes)	1,949,400	1.9494

(As of April 6, 2005, USD 1.00 is approximately YTL 1.37 or TL 1,370,000)

Retail prices for sugar are not regulated. Consumption of sugar substitutes, including glucose, HFCS, and artificial sweeteners is increasing due to increasing demand for a variety of sweetener products, and the economics of sweetener production. There are three international and two local companies, with total annual capacity of 900,000 MT currently licensed to produce SBS. Turkey applies high duties on corn imports, which results in higher production costs for fructose and glucose. The soft-drink sector is the primary user of SBS.

Trade

Turkey is not expected to export any sugar in MY 2006 since the government does not provide any export subsidies. The average cost of sugar production in Turkey is USD 1000

for a ton of sugar. Half of this cost is the price of sugar beets. TSC has reduced its sugar exports in recent years since the level of production and carryover stocks have been decreased as a result of the reforms in the sugar industry.

Some sugar, produced from beets, which are above the contracted level, may be sold by the TSC to exporters who use sugar in their exported products. Sugar produced from above-quota beets cannot be sold in the domestic market.

Stocks

Official statistics for stocks are not available. PSD stock estimates are based on information received from both public and private sources. Sugar stocks declined in recent years due to reduced production. However, stocks in MY 2006 are projected to increase slightly given the projected increase in production. According to industry sources, TSC will control almost all of the stocks.

Policy

Production

Turkey's sugar industry is supposed to be regulated by the Sugar Law, which was implemented in 2001. The law was expected to remain in place for five years after which time the industry is supposed to be totally deregulated, in accordance with Turkey's IMF obligations. The Law established two operation bodies. The first one is the Sugar Authority, which carried the decisions taken by the Sugar Board and inspections and investigations on behalf of the Sugar Board. The second one is the Sugar Board, which is a seven-person Board included 4 government officials and one representative each from TSC, PANKOBIRLIK, and starch-based sweetener producers. The Board was responsible for establishing production quotas for sugar and sweeteners based on the supply and demand for sugar and sweeteners. TSC, PANKOBIRLIK, or the private producer establishes ex-factory sugar prices. However, the Council of Ministers issued a decree on December 31, 2004 and declared that the Sugar Authority was no longer needed. This has created uncertainties in the industry.

However, while the Sugar Board is still operative with the abolishment of the Sugar Authority, there is no mechanism or entity to implement the decisions of the Board. This has created a great deal of uncertainty in the industry.

A second issue is also causing problems in the industry. Some beverage companies requested permission from the Board in 2005 to produce SBS for their own production of soft drinks. At the time, the Board declined their request but began an investigation of all soft-drink producers. The investigation showed that a major beverage producer is buying starch slurry and processing it into HFCS for beverage production without approval of Turkey's Sugar Board on the theory that the law only applies to the marketing and sale of HFCS and not, therefore, to production for a company's own use. It is believed that the company has been producing HFCS for internal use for about a year. Some speculate that this was the reason for the elimination of the Sugar Board. The case is currently in the Turkish courts. Several other factories are producing or planning to produce SBS possibly in violation of the law.

In the meantime, the Ministry of Industry and Trade (MIT) drafted a revision of the Sugar Law and sent it to the Prime Ministry for approval in February 2005. The new law has several major revisions including:

1. The Sugar Board will lose its independence and be required to operate under the MIT. Although the Sugar Board will still establish and announce quotas, however, MIT must approve them before they are implemented.

2. New quotas will be established for starch-based sweetener on dry matter basis. As a result, quotas will be increased by 25 percent since starch-based sweeteners include 25 percent water.

3. New companies may apply for permission to produce SBS according to the Draft Sugar Law within one month after the Law is adopted, their application will be reassessed.

The proposed law has been criticized for the following points:

- a) More SBS and less of beet sugar will be produced. Thus, Turkey will be more dependent on corn, for which it is a net importer. Most of the existing sugar refineries will be closed due to reduced quotas. Unemployment will increase.
- b) Sugar Board decisions will be influenced by short-term politics.
- c) Permission to apply for productions quota for those currently producing "illegally" will create a case of unfair competition in the sector.

SBS producers, who already have a capacity of 900,000 MT, are also concerned because the quota forces them to operate at about 25 percent of their existing capacity and threatens the viability of their investments arguing that their investments should be protected from this type of regulation. The SBS producers are hoping that the quota will be eliminated after the Law is expired. Beet sugar producers argue that an increase in SBS production quotas would result in larger carryover stocks of beet sugar.

Some foreign beverage companies had been rejected for a similar request from the sugar board. Now these companies are concerned that a prominent local beverage manufacturer will be given amnesty under a new draft sugar law for producing unauthorized SBS. Other local companies, which have established unauthorized production facilities, will also be included in the sugar quota giving them an unfair advantage in production.

Trade

The 2005 tariff on sugar is 108 percent, unchanged from 2004, on the CIF value for sugar imports from the EU countries and 135 percent from all other origins.

Marketing

The TSC and private producers, wholesalers, and retailers handle marketing of sugar. All SBS producers and distributors are private.

Statistical Tables

Sugar Beet PS&D Table

Turkey Sugar Beets							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2003		09/2004		09/2005	MM/YYYY
Area Planted	330	315	0	330	0	320	1000 HA
Area Harvested	330	314	0	329	0	320	1000 HA
Production	14100	12575	0	13800	0	14500	1000 MT
TOTAL SUPPLY	14100	12575	0	13800	0	14500	1000 MT
Utilization for Sugar	14100	12575	0	13800	0	14500	1000 MT
Utilizatr for Alcohol	0	0	0	0	0	0	1000 MT
TOTAL UTILIZATION	14100	12575	0	13800	0	14500	1000 MT

Centrifugal Sugar PS&D

Turkey Sugar, Centrifugal							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2003		09/2004		09/2005	MM/YYYY
Beginning Stocks	730	730	565	484	595	583	(1000 MT)
Beet Sugar Production	1915	1915	1990	2109	0	2175	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	1915	1915	1990	2109	0	2175	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	1	0	0	0	0	(1000 MT)
TOTAL Imports	0	1	0	0	0	0	(1000 MT)
TOTAL SUPPLY	2645	2646	2555	2593	595	2758	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	150	232	0	50	0	50	(1000 MT)
TOTAL EXPORTS	150	232	0	50	0	50	(1000 MT)
Human Dom. Consumption	1930	1930	1960	1960	0	2000	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	1930	1930	1960	1960	0	2000	(1000 MT)
Ending Stocks	565	484	595	583	0	708	(1000 MT)
TOTAL DISTRIBUTION	2645	2646	2555	2593	0	2758	(1000 MT)

Trade Matrices

Export Trade matrix

Turkey Sugar, Centrifugal

Time Period	Jan. - Dec.	Units:	Metric Tons
Exports for:	2003		2004
U.S.	11	U.S.	57
Others		Others	
Iraq	96713	Iraq	89723
Georgia	72017	Georgia	16795
Azerbaijan	13592	Azerbaijan	10784
Northern Cyprus	5206	United Arab Em.	7630
Russia	2215	Northern Cyprus	7120
Germany	1445	Germany	5084
France	669	Iran	4783
Turkmenistan	435	Russia	1089
Israel	239	France	474
Yugoslavia	163	Romania	445
Total for Others	192694		143927
Others not Listed	8476		1039
Grand Total	201181		145023

Import Trade Matrix

Turkey Sugar, Centrifugal

Time Period	Jan. - Dec.	Units:	Metric Tons
Imports for:	2003		2004
U.S.	17	U.S.	25
Others		Others	
United Kingdom	443	United Kingdom	302
Germany	80	Netherlands	140
France	78	Germany	122
Italy	44	France	67
Spain	29	Italy	39
United Arab Em.	22	Spain	23
Saudi Arabia	1		
Total for Others	697		693
Others not Listed	44		
Grand Total	758		718